



## MONTHLY INVESTMENT *Brief*

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### *A lull under pressure*



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*The market is not in crisis; it is in transition. Ignoring this reality risks poor decision making. Acknowledging it, however, allows investors to focus on what matters most: building more resilient, future-proof portfolios.*  
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Financial markets are currently heavily shaped by events that are largely unpredictable and difficult for investors to control. The opening of negotiations aimed at a ceasefire, combined with the U.S. blockade of Iranian ports, has rekindled hopes of a de-escalation of the conflict with Iran. These expectations remain fragile, however, and could quickly be disappointed should the talks fail. While the White House's shifting positions on the state of the negotiations may create short-term opportunities, their relevance remains limited for long-term investors—a category to which we belong.

More fundamentally, the first few weeks of the conflict have already clouded global growth prospects and increased inflationary risks. In its World Economic Outlook published in mid-April, the International Monetary Fund (IMF) forecasts weaker growth, even in the best-case scenario of a swift end to the conflict: the growth forecast has been revised down from 3.2 to 3.1 percent while inflation could reach 4.4 percent.

A prolonged closure of the Strait of Hormuz would have far more severe consequences for both growth and inflation. Although we believe that a lasting ceasefire agreement between the U.S. and Iran remains more likely than a resumption of hostilities, the economic and financial repercussions of the

conflict would remain significant even in the event of rapid stabilization.

In both the U.S. and Europe, bond markets no longer anticipate near-term interest rate cuts. In the euro area, several rate hikes are even expected. Financial markets thus appear to be at an inflection point on the threshold of a new market environment characterized by structurally higher interest rates than in the pre-Covid period, geopolitical uncertainty, and major technological upheavals whose sectoral implications remain partly undetermined.

#### *A sharp reaction in bond markets*

Despite this uncertain backdrop, equity markets have generally shown resilience, even as volatility has repeatedly spiked. Bond markets, by contrast, have reacted far more strongly: short-term and long-term interest rates have risen worldwide. Unlike in other geopolitical crises, this development has not led to a sustained flight into safe-haven government bonds.

This dynamic is primarily driven by structural factors such as high government deficits, increasing government financing needs, and a persistently larger supply of bonds. For investors, this means



that duration risk is once again playing a more significant role and should be given greater attention.

### A moment of truth for artificial intelligence

At the same time, AI is entering a pivotal phase. Investors are now seeking to distinguish future winners from players that could come under pressure. The investment wave linked to AI is very real—as are the substantial amounts committed by large U.S. technology companies to data centers, chips, and infrastructure.

A deeper analysis, however, highlights several areas of risk: Financing needs are growing faster than revenues generated, while leverage is increasing. A growing share of this expansion is being funded through new debt issuance, even in the high-yield bond segment. While there are no clear signs of an imminent bursting of the AI bubble, the risk of overinvestment continues to grow. The key question remains whether productivity and profits can keep pace with the particularly rapid pace of investment.

More fundamentally, this technological upheaval will redefine sectoral balances. AI will not only drive economic growth; it will profoundly transform existing business models. Industries with highly standardized processes are particularly affected - including parts of the financial sector. At the same time, major technology companies are gradually extending their solutions across the entire value chain, thereby intensifying competition with established providers.

In this context, broad sector diversification is more essential than ever for investors. Finally, an additional source of tension is emerging in the private debt market: data points to an increase in repayments by large private debt funds, as well as heightened pressure on refinancing transactions, particularly those related to data center financing. At this stage, however, the risk remains contained: compared to the traditional banking system, the economic weight is still limited (4–5% of total outstanding credit), and no systemic crisis is emerging on the horizon.

### What does this mean for the investment strategy?

The current environment is best characterized as a pause within an otherwise turbulent landscape. Market direction remains uncertain. Neither a recession nor a sustained bear market represents our

base-case scenario at this stage, despite unresolved geopolitical tensions. The risk of a significant resurgence in inflation driven by second round effects appears limited. That said, this is not an environment conducive to aggressive positioning. The priority is capital preservation rather than the pursuit of outsized gains.

In practical terms, this calls for shorter bond maturities, selective profit taking in assets that have appreciated sharply, and a reallocation toward securities that have lagged thus far. A balanced exposure across cyclical and defensive segments remains essential. European industrials and materials companies, selected U.S. industrial and defense names, and European financials currently present attractive opportunities. Conversely, caution is warranted in certain defensive consumer sectors and in companies whose business models are particularly exposed to disruption linked to artificial intelligence.

In summary, we maintain a slight overweight in equities and continue to favor long term structural themes such as artificial intelligence, defense, and electrification. However, these themes are evolving rapidly and can no longer be accessed passively through broad market exposure. Recent conflicts illustrate how technological shifts—such as the replacement of traditional heavy equipment by drones—can quickly redefine winners and losers. Allocations should therefore focus on those best positioned to benefit from these structural changes.

The key drivers identified at the start of the year remain intact. Fiscal stimulus and accommodative financial conditions should continue to support asset price reflation and a momentum-driven market. Short-term disruptions are inevitable, but it is the broader trajectory that ultimately matters.

The market is not in crisis; it is in transition. Ignoring this reality risks poor decision making. Acknowledging it, however, allows investors to focus on what matters most: building more resilient, future-proof portfolios.

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